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States continue spending sprees

As a federal bailout takes shape, many states continue to spend money at boom-time rates even though revenue is sinking.

The mismatch between spending and revenue has left states facing projected shortfalls of up to \$80 billion over the next six months, equal to as much as 10% of what states had planned to spend.

CASH-STRAPPED:

Forty-two state legislatures convene this month, and filling those gaps will be their top priority. A handful of states — notably California, Florida and New Jersey — have reduced spending, a USA TODAY review of state financial reports shows. Most have taken a wait-and-see attitude because spending cuts may not be needed if Congress approves a large federal aid package, and big spending hikes are a possibility.

Last week, President-elect Barack Obama promised "immediate relief" to "help struggling states avoid harmful budget cuts." Congressional leaders have talked about giving states at least \$200 billion. Five Democratic governors — from New York, New Jersey, Ohio, Massachusetts and Wisconsin — have asked for \$1 trillion over two years. State governments spend about \$1.5 trillion annually.

South Carolina Gov. Mark Sanford says the expected bailout, which he opposes, has helped states avoid fiscal responsibility. "If Washington will wave a magic wand and bail you out, the obvious answer in politics is to avoid decisions you don't want to make," says Sanford, a Republican.

Wisconsin Gov. Jim Doyle, a Democrat, says his state would have to slash essential services, including education, by 15% without federal aid. "You can't tell a child in second grade to come back when the economy is better," he says.

Some of the states hardest hit by the housing crisis and other economic troubles are the biggest spenders. In Arizona, spending is up 6.6% during the first six months of a budget year that began July 1. That's on top of a 10.5% increase last year. The state spends an average of \$28 million a day while receiving \$22 million in revenue, state Treasurer Dean Martin says. "The housing bubble burst in mid-2006 ... and the budget keeps growing as if that never happened," says Martin, who expects to borrow money to pay some bills.

A lot of states "haven't really 'fessed up yet in terms of how bad it is," says National Governors Association executive director Ray Scheppach.

States are lobbying hard for federal aid to be sent as cash that can be used to reduce shortfalls rather than as money earmarked for new projects such as roads, bridges and other infrastructure. Scheppach and others want Congress to pay more of the cost of Medicaid, the health care program for the poor.

Strong state spending has helped slow the downturn. Health care and state and local governments are the only sectors of the economy growing. States added 6,000 workers in December; the private sector cut 531,000, the Bureau of Labor Statistics says.

By Dennis Cauchon and Judy Keen, USA TODAY